

CITY OF MILTON
Pierce County, Washington
January 1, 1993 Through December 31, 1993

Schedule Of Findings

1. Data Processing Controls Should Be Improved

As a part of the 1993 annual audit we reviewed data processing controls and noted the following weaknesses in the city's data processing system:

- Passwords are assigned by the system administrator but are not revised regularly. Access is also available to every sector of the system through use of the "Root" logon. This "Root" logon is not password protected, allowing unlimited, unlogged access to the system and completely negating the city's computer security. This ease of access substantially increases the risk of errors or irregularities entering the system without timely detection.
- Data processing records are not adequately safeguarded from harm. City procedures do not include a complete backup of the system after software modification or updates. Off-site storage of these computer backup files is not sufficiently removed to ensure protection from the effects of fire or other hazards. Lastly, backup procedures are not formally documented. These factors combine to greatly increase the risk of irretrievable loss of data in the event of a catastrophic system failure.
- In January 1994, the BPA fund budget was improperly revised by \$160,335. This revision was performed using the logon ID of an employee who was not responsible for the budget process and should not have been granted access.
- In February 1994, the same logon ID was used to improperly revise that employee's vacation and sick leave records on the payroll master files. This employee was not involved in the payroll process and should not have had access to this area.

We recommend that management revise password controls to allow users to choose their own password, require that passwords be changed on a regular basis, and take steps to eliminate unnecessary access to the system. We also recommend that the city revise and document backup procedures requiring full system backups to be performed after software changes and upgrades. We further recommend that the use of the "Root" logon be restricted to the system administrator and protected by password.

2. Internal Controls Over Fire Department Expenditures Should Be Improved

As a part of our audit of the 1993 financial statements for the city, we noted reimbursements to volunteer firefighters for expenses incurred responding to emergency calls. This payment was intended to be a reimbursement for the expenses incurred as a result of responding. However, the city has applied this policy in a manner which can lead to results inconsistent with the original intent.

Volunteer firefighters may receive credit for responding to more than one call at the same time. For example, during the Inauguration Day Storm of 1993, 24 volunteer firefighters received \$5,691 reimbursement for a total of 813 emergency responses. Some of these emergency calls occurred within minutes of one another, yet all firefighters on duty at the time claimed reimbursement for responses to both.

Therefore, the number of responses may not be the most accurate measurement of volunteer expenses, since the majority of these costs arise out of the initial travel to the station. Calls occurring shortly thereafter could be expected to result in lower out-of-pocket expenses to the volunteer. Management contends that while the existing method will occasionally result in reimbursements far exceeding the costs incurred, over time these will be balanced out by those calls which cost the volunteer far more than they will receive.

The documentation supporting the volunteer firefighters responses to calls on the Inauguration Day Storm was compiled long after the event. In some cases the call sheets and officer's reports were completed four or five months later. Such a long delay between the event and the preparation of the documentation supporting the firefighter's presence leads to a high probability of error in recording. Management believed, due to the size of the emergency, they were unable to complete all of the documentation until much later.

We recommend the city review its procedures for reimbursement of volunteer firefighter expenses and explore other measurement basis which may provide a more realistic gauge of the costs actually incurred. We further recommend that documentation supporting the department's responses to emergency calls be completed on a timely basis.

3. Internal Control Over Cash Transactions Should Be Improved

We audited internal controls used by the city for cash receipting at the city. During our review of the cash receipting system, we noted several weaknesses:

- Bank reconciliations were not performed regularly or correctly. We noted that the available bank reconciliations were not done to month end, but to the end of the first or second week.
- Reconciling items could not be properly identified. A \$15,140.51 suspense amount appeared on the reconciliations from February 1993 through September 1993.
- Cash accounting and bank reconciliation was performed using Quicken, a home financial program.
- The employee charged with performing the reconciliations of the cash and investment accounts was also authorized to initiate wire transfers and treasurer's checks.

By not performing a regular, complete bank reconciliation, the city is deprived of a valuable tool for detecting errors and intentional misappropriation of city resources. Furthermore, the failure to separate the wire transfer and check writing functions from the reconciliation and accounting functions substantially increases the risk of loss and accounting errors.

It appears that these conditions arose out of inadequate training of the staff responsible for those functions.

We recommend that the city revise its current procedures to ensure that cash and investment accounts are reconciled monthly. We further recommend that the city reassign duties between staff members to ensure that persons responsible for this reconciliation do not have check and wire authority.

4. Utility Control Account Should Be Reviewed And Reconciled To Subsidiary

We audited the accounting for the city's utilities and noted that utility revenues and receivables were not adequately supported by the utility billing system records. We also found that a reconciliation of the detailed records to the control account was not regularly performed.

Failure to reconcile the general ledger accounts to the subsidiary records greatly increases the risk that errors and/or irregularities could occur and not be detected in a timely manner. As a result, additional audit procedures were necessary to provide adequate assurance that utility account activity had been correctly recorded.

We recommend that the city review and reconcile the utility receipts control account to the utility billing system on a monthly basis.

5. City Should Comply With Local Improvement District Accounting Requirements

While auditing the accounting of the city's 1987 local improvement district (LID) 87-1, we noted that the city did not properly account for penalties and interest on all of the assessments.

RCW 8.12.430 requires:

If the whole or any portion of any assessment remains unpaid after the first thirty day period (after the installment payment billing date) interest upon the whole unpaid sum shall be charged

In October of 1993, the city failed to calculate interest due on the installment payable in September 1994. Consequently this interest has not been included on the 1993 annual financial statements. The interest payment has historically been calculated and booked to the customer account much later in the year, sometimes as late as the day of the next year's installment billing.

Furthermore, Milton Ordinance 1084 stipulates that:

Any installment not paid prior to the expiration of the thirty day period during which such installment is due and payable shall thereupon become delinquent. Each delinquent installment shall be subject, at the time of delinquency, to a charge of 10% penalty levied on both principal and interest

We noted that penalties were rarely booked, even in cases where the property owner was three months delinquent in payment.

As a result of this failure to record interest and penalties at the proper time the city runs the risk of losing potential revenues when a customer pays off their account balance early. Also, since the records do not accurately reflect the amounts owed the city, management may be misled as to the financial condition of the fund.

It appears that the main reason for this failure to properly account for the activity of LID 87-1 is a combination of high staff turnover in this area and an inadequate knowledge of the legal requirements relating to this LID.

We recommend that the city immediately calculate and accrue all interest charges due from LID customers. We further recommend that the city review historical data for all LID 87-1 customers to determine whether any penalties should have been assessed.

6. Payments To City Attorney Should Be Adequately Supported

As a part of our audit of the purchasing system we noted that payments to the city's attorney for general counsel and litigation services were not adequately supported by detailed hourly billings. A monthly summary of total charges, reviewed and approved by the mayor, was all that was available for inspection. We also noted that these claims had not been certified by the official auditing officer. By contrast, detailed invoices for prosecutorial services were provided by the same law firm to the Milton Municipal Court and were available to support these payments.

RCW 42.17.260 requires that:

Each agency, in accordance with published rules, shall make available for public inspection and copying all public records

RCW 42.24.080 stipulates that:

All claims presented against any county, city, district or other municipal corporation or political subdivision by persons furnishing materials, rendering services or performing labor, or for any other contractual purpose, shall be audited, before payment, by an auditing officer elected or appointed pursuant to statute

RCW 42.24.080 further states that:

. . . no claim shall be paid without such authentication and certification.

Furthermore, RCW 43.09.200 requires that the city accounting records contain:

. . . all receipts, vouchers, and other documents kept, or required to be kept, necessary to prove the validity of every transaction

Limiting the review of the city attorney's monthly billings to a single person and limiting access to those records deprives the city of a valuable means of detecting errors and intentional misstatements of claims against city funds. Errors are routinely discovered and corrected during the review of invoices from this firm to the Milton Municipal Court. With regards to bills for general counsel services, management is unable to compare departmental records to the presented claims.

The detailed billings have been secured at the office of the city attorney in order to preserve confidentiality between attorney and client. In the absence of this supporting documentation, the auditing officer refused to certify the claim as valid before its payment at a later date.

We recommend that the city revise its claims processing procedures to ensure that adequate detailed information is available to support payments made to the city attorney. We further recommend that the documentation be retained on site and be available for inspection. Finally, we recommend that the city adopt a policy designating an official officer and refrain from paying claims that have not been certified by this officer.